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SUBJ: OPIC TO BRING MUCH NEEDED CREDIT TO PAKISTAN

11. (SBU) Summary and Introduction: Given Pakistan's tight credit markets, OPIC Vice President for Structured Finance Robert Drumheller's second visit in as many months was enthusiastically received by the Pakistani business community. The January 27 to 29 trip focused primarily on the energy sector. Petroleum Minister Naveed Qamar thanked OPIC for its support of the 4Gas LNG import and re-gasification terminal, which had led to the GOP formally approving the project on January 26. OPIC, General Electric (GE), and Pakistan's Alternative Energy Development Board (AEDB) presented a joint brief on opportunities in the wind sector to 15 prospective energy investors. OPIC VP held preliminary meetings with a number of firms interested in investing in thermal, hydroelectric, and solar power generation. In addition, OPIC VP identified potential projects in telecommunications, hospitality and Small and Medium Enterprise (SME) lending. Drumheller will return to Pakistan in March to follow up on these potential projects. End Introduction and Summary.

GOP Approves OPIC-financed LNG Re-gasification Terminal

12. (SBU) In a meeting with OPIC VP and Ambassador, Minister of Petroleum and Natural Resources Naveed Qamar said that Pakistan's cabinet-level Economic Coordination Committee (ECC) had given the green light to American-owned 4Gas to build a floating LNG re-gasification terminal in Port Qasim, near Karachi, with the decision to proceed, based in large part on OPIC financing. The \$170 million project (phase I) would process 3.5 million tons of LNG a year by early 2011, helping to reduce Pakistan's natural gas shortages by 500 mcf/d. Qamar said that the GOP could absorb additional gas supplies and requested that OPIC support other LNG re-gasification projects by Vitol-Fauji and the Associated Group. Qamar added that the ECC has yet to approve the second \$500-\$600 million phase of 4Gas project for a landed re-gasification facility. OPIC would consider funding this phase jointly with the World Bank's International Finance Corporation (IFC) and other commercial lenders.

13. (SBU) Qamar said the ECC had yet to finalize a gas supply contract for the 4Gas facility, but that this would not impact on the 4Gas award. He added that he would meet with the two leading gas suppliers, GDF-Suez and Shell, to discuss supply terms on January 28. (Note: According to Petroleum Ministry sources the January 28 meeting did not lead to a final decision. The Ministry is split between supporting the GDF-Suez supplies, which are cheaper

but on a shorter term contract, and Shell supplies, which are more costly but longer term. End note.)

OPIC and GE Make Pitch for Wind Energy

¶4. (SBU) In 2004 Pakistan's Alternative Energy Development Board (AEDB) designated a wind corridor in Sindh and since then has awarded 102 letters of intent (LOIs) to potential investors to build 50 Mw wind farms in the corridor; of these, 49 LOIs remain active. The AEDB has placed a guarantee on wind availability, and Pakistan's energy regulator NEPRA has set tariffs for wind power at an average of 12 cents a kw/h, less than the tariff for most thermal plants. However, only one firm, Zorlu, has put up a wind farm, and its farm only produces 6 Mw. Tight credit markets combined with the lack of successful model projects have inhibited investment in the sector, a gap OPIC is looking to fill.

¶5. (SBU) OPIC and GE, under the auspices of the AEDB, presented a scheme that would allow for OPIC financing to wind energy projects without significant U.S. equity investment to 15 potential investors. GE currently only provides operation and maintenance (O&M) for up to 2 years for its wind turbines, but is actively investigating the possibility of extending O&M up to 10 years, which could provide enough U.S. participation to allow non-U.S. equity investors using GE equipment to secure OPIC financing. (Note: OPIC needs to review this approach with the incoming OPIC President. End note.) Potential investors were concerned that the GE product would not be able to operate in the high temperatures (often exceeding 110

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degrees) during the high wind summer season. A number of investors said they would try to attract U.S. investors to meet the OPIC U.S. equity threshold, and would contact OPIC if they were successful in doing so.

Other Energy Opportunities

¶6. (SBU) The Associated Group is seeking OPIC financing for its \$155 million Star Thermal Power Project, a 134 Mw plant in Daharki, Sindh, which would burn captive low btu natural gas from a dedicated field not connected to the national gas grid. OPIC will confirm whether there is a sufficient U.S. equity stake in the project in follow-up meetings with Associated Group's U.S. partner, Walter's Power, and if so will issue the U.S. investor a letter of interest with a copy sent to Pakistan's Private Power and Infrastructure Board (PPIB).

¶8. (SBU) Orient Power, which has a U.S. equity stake, is planning to build a number of 25 Mw thermal power plants in various locations that would run on natural gas from small, isolated gas fields off the national gas grid. Orient is also looking to put up a number of 2 Mw solar power projects at roughly \$8 million each. Orient believes that, though the initial capital outlay for solar is high, solar plants can provide power at a lower cost than plants running on refined fuel oil. Orient Power and OPIC will investigate a means to bundle the small thermal and solar projects into a larger facility to fund a number of them at one time.

¶9. (SBU) Asian Energy Ventures Limited (AEVL) is pursuing an \$84 million hydroelectric power project on the Chashma Jhelum Link Canal in Punjab that would produce 44 Mw. AEVL has identified interested U.S. investors but their project could be blocked by Sindh provincial authorities concerned about the projects effect on potential water flows from Punjab to Sindh. OPIC is meeting with the investors in Washington, DC to clarify the status of the project.

¶10. (SBU) Azur Solar, a German company with a joint venture with a U.S. company, is considering building a pilot solar project in Pakistan to demonstrate the viability of solar power. OPIC encouraged Azur Solar to have its U.S. partner contact OPIC to discuss possible projects.

Other Investment Opportunities

¶11. (SBU) Telecommunications. Tower Share, a UAE firm in the process of obtaining U.S. investors wants \$40-60 million in OPIC financing to purchase existing towers and build additional ones for the Pakistani cell phone market. Currently, there are 5 mobile telecom providers in Pakistan with huge inefficiencies of scale, as each has built competing transmission towers. Tower Share would reduce operating costs across the sector by leasing shared towers to multiple providers. They have an existing pilot contract from Ufone and are seeking to expand the number of towers in a phase two contract.

¶12. (SBU) Hospitality. OPIC is in an early stage conversation with a local investor who has a contract with Marriott to construct a 34 story 5-star hotel in Lahore. The contract with Marriott establishes sufficient basis for OPIC to provide financing. OPIC is in the process of obtaining additional details.

¶13. (SBU) Finance for Small and Medium Enterprises (SMEs). Large banks primarily lend to the public sector and large industrial and commercial firms, while micro-finance institutions serve the bottom of the credit market, leaving SMEs out of the mix. Tameer Microfinance would like to fill this gap by expanding its business from micro-lending to SME lending. Tameer is preparing a proposal for a \$4-5 million USAID grant to support the expansion of its business to SME lending as well as provide risk capital. In turn, OPIC would provide Tameer a \$30 million lending facility.

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¶14. (SBU) Comment: The global economic downturn combined with tight Pakistani credit markets has led to a slowdown in private sector investments. Foreign direct investment fell from \$5.4 billion in FY 07-08 to \$3.7 in FY 08-09, with U.S. investment falling from \$1.31 billion to \$870 million in the same period. The overhang of some \$4 billion of "circular" inter-corporate and bank debt in the energy sector, though it is being serviced by the GOP, has further squeezed new investments in the sector. However, the investment climate in Pakistan is generally favorable, with little hindrance to movements of human resources, capital and profits. Hence, there is a huge thirst for OPIC's credit facilities. OPIC plays a key role in our strategy to bolster Pakistan's private sector and economic growth. End Comment.

¶15. (U) This cable was coordinated and cleared by OPIC.

PATTERSON